1. A, 2. B, 3, C, 4. D, 5, C, 6. B, 7. C, 8. A, 9. C, 10. A, 11. C, 12. D, 13. D, 14. C, 15. A

16. POSSIBLE RESPONSE: The upward pressure means pressure on the country currency's to appreciate. The central bank would have to buy foreign currency and sell domestic currency in the foreign exchange market. It could eventually be difficult to maintain the fixed exchange rate. The central bank increases the domestic money supply by selling domestic currency in the foreign exchange market. Sooner or later there would be more inflation. In addition, the country would come under foreign political pressures because of its persistent payments surpluses. Sterilization means offsetting the consequences of foreign exchange intervention on domestic money supply. The central bank would have to carry out contractionary domestic monetary actions to sterilize. Such sterilization could hold off the inflation, but would not stop the foreign pressures. One such example was China. China's foreign exchange reserves more than quadrupled from 2000 to 2005. After that the Chinese government had to allow appreciation of its currency.

17. POSSIBLE RESPONSE: In the Bretton Woods exchange rate system, countries other than the United States pegged their currencies to the U.S. dollar, and the U.S. government was obligated to exchange at a fixed price U.S. dollars for gold with the central banks of other countries. As the United States ran overall payments deficits, foreign central banks began to accumulate more dollars than they wanted to hold. As they exchanged some dollars for gold, U,.S. holdings of gold decreased. The United States resisted tightening policies, which could have reduced or reversed U.S. payments deficits. Instead, in 1971 the U.S. government suspended the exchange of gold for dollars and imposed a 10 percent tariff to force other countries to revalue their currencies. The system was patched back together late in 1971, but by early 1973 most major currencies had shifted to floating against the U.S. dollar.